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3 ✓ UNIFORM SYSTEMS OF ACCOUNTS

PRESCRIBED FOR

TELEPHONE BORROWERS

FINANCED BY

THE

RURAL ELECTRIFICATION ADMINISTRATION.

* * * * *

Accounting Procedure

supplementing

the Uniform Systems of Accounts

prescribed by

the Federal Communications Commission

and

the various State Regulatory Bodies //

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UNITED STATES DEPARTMENT OF AGRICULTURE

2 U.S. RURAL ELECTRIFICATION ADMINISTRATION //

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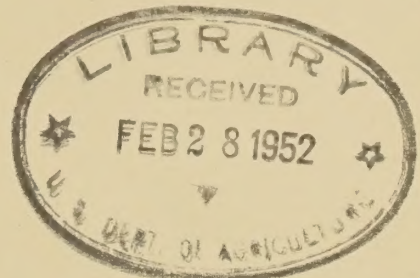


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INTRODUCTION

This manual has been prepared by the Rural Electrification Administration for the use of its telephone borrowers in installing and maintaining their accounting systems and records.

In order to facilitate the effective and economical operation of a business enterprise, it is essential that adequate and reliable records be kept. Accounting records must provide facts needed for the correct evaluation of the past and current conditions of the organization supplying rural telephone service. Complete and factual records are of material assistance in the determination of future action and the progress of the business.

The Rural Electrification Administration, in representing the Government as mortgagee and in furtherance of the Rural Electrification Act, has a special concern with the assurance that complete and substantial records are maintained by the borrowers of telephone construction loan funds.

The policy of the Rural Electrification Administration with respect to the use of uniform systems of accounts by its telephone borrowers is as follows:

1. The Uniform System of Accounts as prescribed by the Federal Communications Commission for Class A, B, C and D telephone companies has been adopted as the basic system of accounts to be followed by borrowers of REA loan funds for telephone facilities.
2. A borrower which is subject to the jurisdiction of the Federal Communications Commission or a state regulatory body shall keep its accounts and records in conformity with the rules and regulations prescribed by such body.
3. Supplementing the foregoing systems of accounts, all borrowers shall keep and use such accounts and records as prescribed by REA to provide particular information deemed necessary.

The supplementary subsidiary accounts, mentioned above, are shown in two sections of this manual. Section III sets forth the subaccounts required of all borrowers and Section IV sets forth the additional subaccounts required only of borrowers of a non-profit nature.

The Uniform System of Accounts as prescribed by the Federal Communications Commission has been used as a basis in the preparation of the instructions and subaccounts contained in this manual.

All of the subaccounts recommended have been assigned decimal account numbers. Provision has been made for the use of the decimal number one (.1) for application, if necessary, to the main account classification in the applicable Uniform Systems of Accounts. The subaccounts

in this manual include in the title, the designation (REA) for clarity of application. Descriptions of debit and credit entries pertaining to these subaccounts have been incorporated in the text as illustrations of items contained in those accounts.

SECTION I

GENERAL INSTRUCTIONS

The books of accounts of all borrowers are to be kept by the double-entry method, on an accrual basis. Each borrower shall keep its books on a monthly basis and all transactions, as nearly as can be ascertained, shall be recorded on the books in the month to which the transaction is applicable. Unless otherwise authorized, each borrower shall close its books at the end of each calendar year.

All books of accounts, records and memoranda supporting the entries shall be kept in such a manner as to support fully the facts pertaining to such entries. The detailed records shall be filed so as to be readily accessible to representatives of REA. The books and records referred to herein include not only the accounting records in a limited technical sense, but all other records, such as minute books, stock and membership records, reports, correspondence, memoranda and information useful in determining the facts regarding a transaction.

No borrower shall destroy any books of records which in any way support entries to the accounts unless the destruction thereof is in accordance with instructions issued by REA.

Borrowers may further subdivide any of the accounts, provided that such subdivisions do not impair the integrity of the accounts prescribed by the regulatory body. The titles of all such subdivisions shall refer by number and title to the accounts of which they are subdivisions. The number prefixed to the account titles is to be considered as a part of the title. Account titles applicable to the REA subaccounts, which are explained in this manual, should not be changed.

All subaccounts set forth in this manual shall be used by all borrowers where applicable. The exception to this rule will be for those cases where there is a conflict with a uniform system of accounts mandatory for the borrowers. In such cases, the subaccount titles prescribed by REA will remain the same but the subaccount number shall conform to the state accounting regulations.

Interpretations of the accounting requirements as contained in Appendix A of Parts 31 and 33 of the Rules and Regulations of the Federal Communications Commission are to be used in connection with the Uniform Systems of Accounts prescribed by that body.

Questions involving accounting procedures not specifically covered should be referred to the Accounting and Auditing Division of REA for interpretation and decision.

SECTION II

ACCOUNTING INSTRUCTIONS

The following accounting systems will be installed and maintained by all borrowers. Compliance with these instructions is required except for any conflict with the rules and regulations prescribed by a regulatory body.

1. Borrowers who have or anticipate average annual operating revenues exceeding \$50,000.00 shall install and maintain the applicable uniform system of accounts as prescribed by the Federal Communications Commission's Rules and Regulations, Part 31, Uniform System of Accounts, Class A and B Telephone Companies.
2. Borrowers who have or anticipate average annual operating revenues not exceeding \$50,000.00 shall install and maintain the applicable uniform system of accounts as prescribed by the Federal Communications Commission's Rules and Regulations, Part 33, Uniform System of Accounts for Class C Telephone Companies.
3. Borrowers who are subject to the jurisdiction of a state regulatory body shall install and maintain the applicable uniform system of accounts as prescribed by such body.
4. All borrowers shall install and maintain the subaccounts provided for in Section III of the manual, in addition to those prescribed by the Federal Communications Commission or state regulatory body. These subaccounts have been designed for supplying the borrower and REA with essential information pertaining particularly to the telephone loan accounts. Instructions regarding the maintenance of these subaccounts are contained in this manual immediately following the schedule of the subaccounts provided.
5. Borrowers operating on a cooperative or nonprofit basis shall install and maintain the subaccounts provided in Section IV of this manual, in addition to those prescribed by the Federal Communications Commission or state regulatory body, and those subaccounts shown in Section III of this manual. These subaccounts have been designed to record the equity of the patrons and members. Instructions regarding the maintenance of these subaccounts are contained in this manual immediately following the schedule of the subaccounts provided.

SECTION III

Subsidiary Accounts (Loan Fund) Required of All Borrowers

Class of Company

A & B

C & D

Subaccount Number

Subaccount Title

Assets

100.16	1000.2	Unclassified Telephone Plant in Service - (REA)
100.22	1100.2	Telephone Plant Under Construction - Contract - (REA)
100.23	1100.3	Telephone Plant Under Construction - Force Account - (REA)
100.24	1100.4	Telephone Plant Under Construction - Force Account - Work Order-(REA)
113.2	1600.2	Cash - REA Construction Fund - Trustee
113.3	1600.3	Cash - Transfer of Funds - (REA)
120.22	1660.2	Accounts Receivable - REA Construction Fund

Liabilities

157.2	2290.2	Other Long Term Debt - Under Notes - (REA)
157.3	2290.3	Interest Accrued - Deferred - REA Construction
157.4	2290.4	Unapplied Payments - Other Long Term Debt - Dr. - (REA)
157.5	2290.5	Notes Executed - Other Long Term Debt - Dr. - (REA)
159.22	2320.2	Accounts Payable to REA Construction Fund
167.2	2400.2	Interest Accrued - REA Construction Obligation

Income Accounts

313.2	7600.2	Interest Charged to Construction - Cr. - (REA)
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Fixed Charges

336.2	7200.2	Interest on Long Term Debt to REA
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Companies

A & B C & D

100.16 1000.2 - Unclassified Telephone Plant in Service - (REA)

This account shall be charged with the cost of completed telephone plant construction when such plant is put into service but has not received final REA approval. Charges to this account will represent transfers from the respective "Telephone Plant Under Construction" accounts and shall remain in this account until approval of the completed construction is received from REA. After receipt of approval, the charges in this account shall be transferred to the appropriate classified telephone plant accounts.

Note: Depreciation expense shall be computed from the date on which such constructed plant is placed in service. Telephone plant acquired by purchase, together with the preliminary expenses incurred in connection with such acquisition, shall be charged to "Telephone Plant Acquired" (a/c 276/1076) pending determination of the amounts to be charged to the appropriate telephone plant accounts and to other accounts.

Debits

Credits

Cost of completed plant construction when placed in service.

Transfer to appropriate telephone plant accounts and to other accounts after approval by REA.

100.22 1100.2 - Telephone Plant Under Construction - Contract - (REA)

This account shall be charged with all telephone plant construction costs where the construction is performed by contract and not by the borrower's own force. Other charges incidental to such contract work shall also be charged to this account. These charges will include where applicable, engineering, supervision, taxes, insurance, transportation, interest during construction, and any other costs incurred in connection with such contract construction.

A subsidiary record shall be so maintained that the various items of cost can be readily identified.

Companies

A & B C & D

100.22 1100.2 - (Cont.)

Debits

Credits

Costs incurred in connection with the construction of telephone plant by contract.

Transfers to Unclassified Telephone Plant in Service (a/c 100.16 - 1000.2) upon completion and placing in service, prior to approval by REA.

100.23 1100.3 - Telephone Plant Under Construction - Force Account - (REA)

This account shall be charged with all telephone plant construction costs where the construction is performed by the borrower's force and the construction project consists of a complete plant or a major or specific section thereof. Such charges shall include all labor and materials used and such other costs as engineering, supervision, supply expense, taxes, insurance, transportation, special machine or services hire, interest during construction and any other costs incurred in connection with the construction of such specific section or major item of telephone plant.

A subsidiary record shall be so maintained that the various items of cost can be readily identified.

Debits

Credits

Costs incurred in connection with the construction of telephone plant by the borrower's own force, where such construction is of a major nature.

Transfers to Unclassified Telephone Plant in Service (a/c 100.16 - 1000.2) upon completion and placing in service, prior to approval by REA.

100.24 1100.4 - Telephone Plant Under Construction - Force Account - Work Orders - (REA)

This account shall be charged with all telephone plant construction costs where the construction is performed by the borrower's force and consists of minor additions to existing plant less than construction of a complete plant or a major or specific section thereof and which is chargeable to Account 100.23/1100.3. Charges to this account shall be supported by work orders specifying in detail the work to be performed. Charges applicable to this account shall include all labor and materials and

Companies

A & B C & D

100.24 1100.4 - (Cont.)

such other charges as engineering, supervision, supply expense, taxes, insurance, transportation, special machine or services hire, and any other costs incurred in connection with such construction.

A subsidiary record shall be so maintained that the various items of cost can be readily identified.

Debits

Credits

Costs incurred in connection with the construction of telephone plant where such construction is of a minor nature.	Transfers to Unclassified Telephone Plant in Service (a/c 100.16/1000.2) upon completion and placing in service, prior to approval by REA.
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113.2 1600.2 - Cash - REA Construction Fund - Trustee

This account shall be charged with the cash received from REA and the equity funds supplied by the borrower under the terms of the Loan Contract. The offsetting credit for funds received from the REA shall be to Account 157.5/2290.5 - Notes Executed - Other Long Term Debt - Dr. - (REA).

Debits

Credits

Proceeds from REA construction loans.	Disbursements made from this fund.
Refund of previous expenditures of REA advances.	
Borrower's equity funds to be used for construction purposes in agreement with provisions of the loan contract.	

113.3 1600.3 - Cash - Transfer of Funds - (REA)

This account is used in transferring funds from one bank account to another. This account is charged with the check drawn for the transfer, and credited when the amount transferred is entered in the Cash Receipts Book.

This account should show no balance since it operates as a clearing account for transfer of cash.

Companies

A & B C & D

113.3 1600.3 - (Cont.)

Debits

Credits

Transfers from other cash
accounts.

Transfers to other cash
accounts.

120.22 1660.2 - Accounts Receivable - REA Construction Fund

The balance in this account shall include those amounts due the REA Construction Fund from General Funds and any other source. Balances in this account that are offset by balances in Account 159.22/2320.2 shall not be shown on the balance sheet.

Debits

Credits

Amounts due REA Construc-
tion Fund which are subject
to current settlement.

Amounts collected.

157.2 2290.2 - Other Long Term Debt - Under Notes - (REA)

This account shall be credited with the face amount of REA construction note upon the execution of such note. The contra entry shall be a debit to Account 157.5/2290.5 - Notes Executed - Other Long Term Debt - Dr. - (REA).

Debits

Credits

Payments of principal to
REA. Maturity of principal. executed.

Face amount of notes

157.3 2290.3 - Interest Accrued - Deferred - REA Construction

This account shall be credited with the amount of interest accrued on REA construction notes, where payment of such interest has been deferred in accordance with the terms of the mortgage notes or extension agreements. The contra entry shall be a debit to Account 336.2/7200.2 - Interest on Long Term Debt - REA.

When payments of such interest are not made on due date, this account will be debited, and Account 162 - Matured Interest and Dividends for Class A and B companies, or Account 2390 - Other Current Liabilities for Class C and D companies, shall be credited with the amount of such matured interest.

Companies

A & B C & D

157.3 2290.3 - (Cont.)

Debits

Credits

Payments made at due date.	Interest accruing on REA
Maturity of interest trans-	construction loans during
ferred to Account 162/2390.	period in which payment
	is deferred by terms of
	contract or extension
	agreement.

157.4 2290.4 - Unapplied Payments - Other Long Term Debt - Dr. - (REA)

This account shall be charged with the principal payments on mortgage notes made in advance of the due date and not applying to a specific quarterly payment. At such time as these payments are applied to a specific quarterly payment due this account shall be credited, and the Long Term Debt or Interest Liability Accounts debited with the amount so applied.

Debits

Credits

Advance payments made by	Journal entry of amounts
borrower.	transferred as payment on
	interest or Long Term Debt.

157.5 2290.5 - Notes Executed - Other Long Term Debt - Dr. - (REA)

This account shall be charged with the total amount of notes executed but for which funds have not been received from REA. The contra entry shall be a credit to Account 157.2/2290.2 - Other Long Term Debt - Under Notes - (REA).

When funds are received from REA, this account shall be credited, and Account 113.2/1600.2 - Cash-REA Construction Fund - Trustee, debited with the amount received.

Debits

Credits

Face amount of notes	Construction Loan Funds
executed. Return of	received from REA.
loan funds to REA.	

Companies

A & B C & D

159.22 2320.2 - Accounts Payable to REA Construction Fund

The balance in this account shall include those amounts due the REA Construction Fund from General Funds and any other source within the borrower's accounts. When reimbursements are made to the Construction Fund, the balance in this account shall be reduced accordingly.

Balance in this account shall not be shown on the balance sheet, but is offset by contra-balance in Account 120.22/1660.2 - Accounts Receivable - REA Construction Fund.

Debits

Credits

Amounts reimbursed.

Journal entry of amounts due REA Construction. Fund which are subject to current reimbursement.

167.2 2400.2 - Interest Accrued - REA Construction Obligation

This account shall be credited with interest accrued but not due on the net long-term debt to REA for construction. Interest not paid when due shall be transferred to Account 162 - Matured Interest and Dividends, for Class A and B companies, or Account 2390 - Other Current Liabilities - for Class C and D companies.

Notes: (If interest has been deferred in accordance with the terms of the contract, such deferred amounts shall be recorded in Account 157.3/2290.3 - Interest Accrued - Deferred - REA Construction.)

(Interest during period of construction shall be charged to the proper subaccount of 100.2/1100 - Telephone Plant Under Construction - and credited to Account 313.2/7600.2 - Interest Charged to Construction - Cr. - (REA).)

Debits

Credits

Interest paid on due date.
Interest not paid at due date and transferred to Account 162/2390.

Current (monthly) interest accrued on net long-term debt balance for construction.

Companies

A & B C & D

313.2 7600.2 - Interest Charged to Construction - Cr. - (REA)

This account shall include the amount of concurrent credits arising from interest charged to construction.

Reasonable amounts for interest during the construction period (before the property is received or is completed ready for telephone service) on funds expended for the acquisition or construction of telephone plant shall be charged to the appropriate telephone plant accounts, and credited to this account, 313.2/7600.2.

336.2 7200.2 - Interest on Long-Term Debt - (REA)

This account shall be charged with all interest on long-term debt to REA.

SECTION IV

Subsidiary Accounts Required of Non-Profit Organizations

Class of Company

A & B C & D

Subaccount Number

Subaccount Title

Assets

126.2 1700.2 Membership Subscriptions Receivable - (REA)

Liabilities

150.2 2100.2 Memberships Issued - (REA)

153.12 2180.2 Memberships Subscribed but Unissued - (REA)

181.2 2900.2 Margins - (REA)

402.2 2900.21 Miscellaneous Credits to Margins - (REA)

413.2 2900.22 Miscellaneous Debits to Margins - (REA)

The above accounts are to be used by non-profit organizations in addition to the accounts shown in Section III of this manual. A description of the above accounts is shown on the pages immediately following.

Companies

A & B C & D

126.2 1700.2 - Membership Subscriptions Receivable - (REA)

This account shall include the amounts receivable on memberships subscribed for but not fully paid. The face amount of certificates subscribed shall be charged to this account with a concurrent credit to Account 153.12/2180.2 - Memberships Subscribed but Unissued.

A subscription ledger shall be used in which a record is kept for each subscriber, showing the amount subscribed, payments made, and the balance due. The balance in this account shall be reconciled monthly with the subscription ledger.

Debits

Credits

Face amount of memberships subscribed but not fully paid.

Payments on subscriptions. Cancellations of unpaid subscriptions when authorized by the governing body.

150.2 2100.2 - Memberships Issued - (REA)

This account shall include the face value of membership certificates outstanding. As certificates are issued, this account shall be credited with the amount paid in. If the membership was sold on the installment plan, the full amount shall be credited first to Account 153.12/2180.2 - Memberships Subscribed but Unissued, and the credit subsequently transferred to this account when all collections have been made and the certificate issued.

A subsidiary membership record shall be maintained furnishing the details to substantiate the balance in this account.

If a transfer fee is collected the credit shall be recorded to Account 316/6900 - Miscellaneous Income - with the amount of fee collected.

Debits

Credits

Paid-in amount of memberships forfeited or transferred.

Paid-in amount of membership certificates issued.

Companies

A & B C & D

153.12 2180.2 - Memberships Subscribed but Unissued - (REA)

This account shall include the face value of memberships subscribed but not issued. This account is principally used where memberships are paid in installments. This account shall be credited at the time the subscription is received and Account 126.2/1700.2-Membership Subscriptions Receivable-debited. As collections are received, they shall be credited to Account 126.2/1700.2 and when fully paid and the certificate issued, the amount of membership shall be transferred to Account 150.2/2100.2-Memberships Issued.

A subsidiary membership record shall be maintained furnishing the details to substantiate the balance in this account.

Debits

Credits

Face value of memberships subscribed for when fully paid and issued.

Face value of memberships subscribed but not issued.

Cancellation of subscriptions when authorized by the governing body.

181.2 2900.2 - Margins - (REA)

This account shall be credited with the credit balance of income for the year, profit on plant sold together with the traffic associated therewith, and other gains realized not properly includible in current income.

It shall be charged with the debit balance of income for the year, loss on plant sold together with the traffic associated therewith, and other losses realized not properly deductible from current income.

Records supporting the entries in this account shall be so maintained that a complete analysis may be readily furnished.

Entries to this account will normally not be made except at the end of the accounting year.

Companies

A & B C & D

181.2 2900.2 (Cont.)

<u>Debits</u>	<u>Credits</u>
Debit balance of income for the accounting year.	Credit balance of income for the accounting year.
Debit adjustments for prior year's transactions, transferred from Account 413.2/2900.22.	Credit adjustments for prior year's transactions, transferred from Account 402.2/2900.21.
Distributions or reservations of margins as authorized by the governing body.	

402.2 2900.21 - Miscellaneous Credits to Margins - (REA)

This amount shall include credit adjustments to Margins arising from transactions applicable to a prior accounting period. Entries to this account shall be described in detail so that the amounts may be identified with the years and the accounts affected. At the close of the accounting year, entries in this account shall be transferred to Account 181.2/2900.2 - Margins.

Relatively minor amounts, although affecting prior years' results, should not be included in this account but should be absorbed in the current year's operations.

<u>Debits</u>	<u>Credits</u>
Transfer at the end of the accounting year to Account 181.2/2900.2 - Margins.	Adjustments arising from transactions applicable to prior accounting periods.

413.2 2900.22 - Miscellaneous Debits to Margins - (REA)

This account shall include debit adjustments to Margins arising from transactions applicable to a prior accounting period. Entries to this account shall be described in detail so that the amounts may be identified with the years and accounts affected. At the close of the accounting year, entries in this account shall be transferred to Account 181.2/2900.2 - Margins.

Companies

A & B C & D

413.2 2900.22 - (Cont.)

Relatively minor amounts, although affecting prior years' results, should not be included in this account but should be absorbed in the current year's operations.

Debits

Credits

Adjustments arising from transactions applicable to prior accounting periods.	Transfer at the end of the accounting year to Account 181.2/2900.2 - Margins.
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